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**USWEST**

G. Michael Crumling  
Executive Director-  
Federal Regulatory

*Ex Parte Presentation*

December 6, 1996

RECEIVED

DEC 6 1996

Federal Communications Commission  
Office of Secretary

William F. Caton  
Acting Secretary  
Federal Communications Commission  
1919 M Street, NW, Room 222  
Washington, D.C. 20554

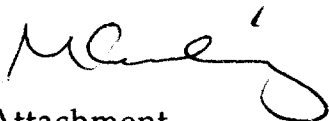
RE: CC Docket 96-112 OVS Services

Dear Mr. Caton:

Yesterday, December 5, 1996, U S WEST representatives met with Gregory Rosston, Economist, Office of Plans and Policy, Patrick DeGraba, Economist, Common Carrier Bureau and Jay Atkinson, Economist, Competitive Pricing Division to discuss issues reflected in the attachment. U S WEST was represented by Robert Harris, Law & Economics Consulting Group, Inc., William Johnston, Executive Director-Markets, Federal Regulatory Strategy, Mike Crumling, Executive Director, Federal Regulatory, and Cyndie Eby, Executive Director, Federal Regulatory.

In accordance with Commission Rule 1.1206(a)(2), the original and one copy of this summary of the presentation is being filed with your office. Due to the lateness of the hour when the meeting concluded, this summary is being filed on the day after the meeting. Acknowledgement and date or receipt are requested. A copy of this submission is provided for this purpose. Please contact me if you have questions.

Sincerely,



Attachment

cc: Gregory Rosston  
Patrick DeGraba  
Jay Atkinson

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Ex Parte Presentation Before the  
Federal Communications  
Commission  
Robert G. Harris

Engineering principles should be  
used to attribute the costs of  
OVS between cable telephony  
and video services.

# OVS: LECs Will Not Intentionally Make Uneconomic Investments In Telephony Or Misallocate Costs From Video To Telephony

- Federal price cap rules reduce incentives for cross-subsidies or misallocations.
- Many states already use and all states could implement price cap regulation for local telephone service.
- In the long term, competition in local exchange markets will prevent LECs from recovering uneconomic local telephony costs.

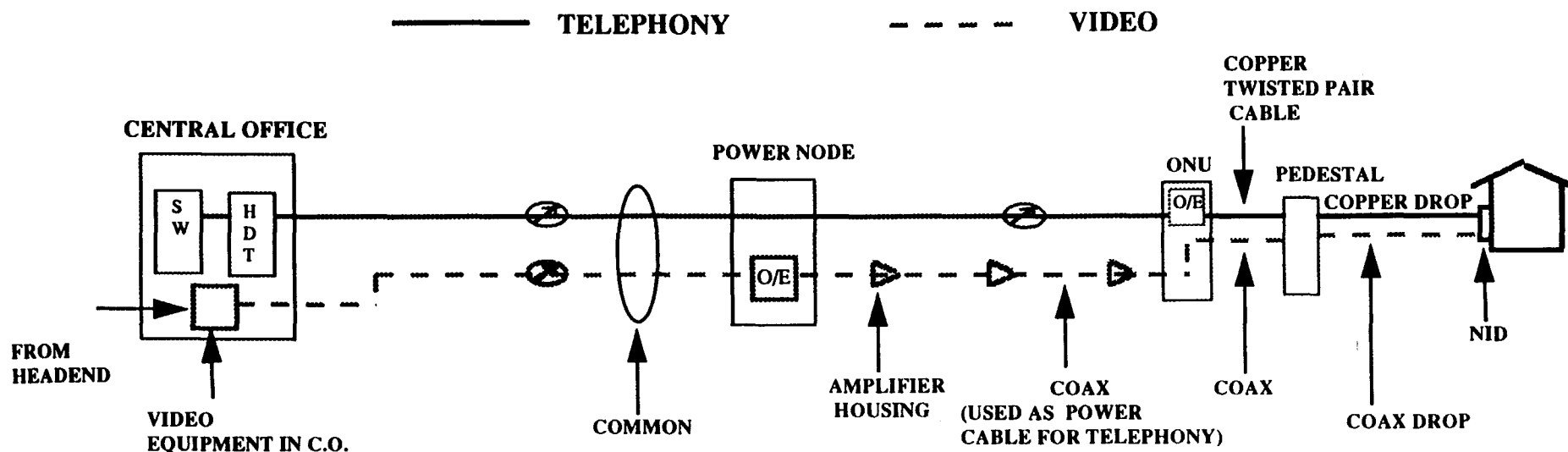
# OVS: Attributing Investment Costs to Telephony and Video Services

- It is economically appropriate to attribute the Stand Alone Cost (SAC) of telephony to telephony, including shared costs which also could be used to provide video.
- Only costs which are incremental to video should be attributed to video, including shared costs which are incremental (e.g. caused by) to video. (i.e. higher capacity fiber cable, larger power supply/housing, and bigger NIDs)

## OVS: Operating Expenses Should Be Attributed On The Basis of Service Causality

- OVS networks are designed to be less expensive to operate than today's telephony only network.
- Using existing telephone network expenses as a basis for allocating expenses to telephony would likely lead to allocating all of OVS operating expenses to telephony.
- Operating expenses should be attributed to telephony and video on the basis of time reporting. (i.e. service calls for video attributed to video and service calls for telephony to telephony)
- Joint service calls could be attributed on the basis of common investment attribution.

## Example Of A Joint Architecture



SECTION	1	2	3	4	5	6	7
	<u>Direct Telephony</u>	<u>Direct Video</u>	<u>Common</u>				
<u>Section</u>							
1	HDT	Video Equip	Fiber Cable				
2	None	O/E Interface	Power Supply/Housing				
3	Fiber/Coax/Trench	Amplifiers	None				
4	O/E /Housing	None	None				
5	Cop. Ca./Trench	Coax Cable	None				
6	Pedestal	Splitter	None				
7	Cop.Dr./Trench	Coax Drop	NID				

<i>Stand alone telephony</i>	<u>common loop cost*</u>	\$200
<b>Changes to <u>common</u> loop costs to add video:</b>		
<u>Section</u>		
1	Larger fiber cable	+40
2	Larger enclosure & more power	+50
3 - 6	No change	
7	Larger NID	+10
<i>Joint Architecture</i>	<u>common loop cost</u>	\$300

Attribution to telephony =  $200 / 300 = 67\%$

\* Costs are per home passed and are illustrative only.